Weekly Update

Stocks Swing Higher on Sustained Confidence

August 27, 2021

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The Economy

- U.S. equity markets closed the week ending August 27 at record highs amid positive corporate and economic data, and sustained faith in the nation's economic recovery. While the COVID-19 Delta variant presents near-term risks, investors remain optimistic that economic growth will persevere and support an uptick in corporate profits.
- The U.S. economy (as measured by gross domestic product) expanded at an annualized rate of 6.6% in the second quarter. Economic growth was solid but fell short of expectations due to labor shortages and a resurgence in supply-chain disruptions. Consumer spending (which accounts for nearly 70% of U.S. economic activity) spiked by 11.9% as Americans felt comfortable returning to their pre-pandemic spending habits, providing a boost to restaurants, hotels and airlines.
- Preliminary estimates for the August reading of Markit's U.S. purchasing managers' index (PMI) showed that manufacturing activity diminished to 61.2 from 63.4 during the month. The report also pointed to decreased momentum in services activity, which fell to 55.2 from 59.9 over the same period. Record-high supply chain disruptions caused manufacturing activity to lose momentum in recent months, while services activity largely suffered from a shortage of materials and labor.
- Existing-home sales advanced to an annualized pace of 5.99 million in July from 5.87 million in June, primarily on soaring demand from first-time homebuyers. However, limited housing inventory—which the National Association of Realtors reported hit a record low of 1.03 million in February (down 29.5% from a year earlier)—is expected to drive existing-home prices higher, further reducing affordability for first-time homebuyers.
- New-home sales jumped to a rate of 708,000 in July from 676,000 in May. However, builders struggled to keep up with demand, while prices for land, labor and materials continued to surge.
- Durable-goods orders inched lower by 0.1% in July. Supply chain constraints drove the decrease. More specifically, shortages in labor and materials along with input costs were headwinds. Nevertheless, the report points to strength in the manufacturing sector. New orders for core capital goods, a closely watched proxy for business investment, was unchanged for the month and 16.7% higher from a year earlier.
- Consumer sentiment increased modestly from 70.2 in July to 70.3 in August on confidence about vaccination rollout plans and fiscal relief, as measured by the University of Michigan's consumer sentiment survey. The expectations component of the survey reflects the six-month consumer outlook for business conditions, employment and income.
- Mortgage-purchase applications climbed by 3.0% for the week ending August 20, while refinancing applications improved by 1.0%. The average interest rate on a 30-year fixed-rate mortgage increased from 2.86% to 2.87%.
- The rate of initial jobless claims during the week ending August 21 increased modestly to 353,000 from 349,000 in the previous week. Jobless claims continued to hover near recent pandemic lows, suggesting sustained healing in the labor market.

Stocks

- Global equities closed higher during the week. Emerging markets led developed markets.
- U.S. equities were in positive territory. Financials and energy were the top performers, while utilities and consumer staples lagged. Growth stocks led value stocks and small caps beat large caps.

Bonds

- The 10-year Treasury bond yield increased to 1.31%. Global bond markets were in negative territory this week. High-yield bonds led, followed by global corporates and global government bonds.
- Federal Reserve Chairman Jerome Powell indicated that the central bank would slowly prepare to pullback some of its monetary stimulus, specifically its bond purchasing program.

The Numbers as of August 27, 2021	1 Week	YTD	1 Year	Friday's Close
Global Equity Indexes				
MSCI ACWI ($)	1.3%	13.3%	25.5%	731.9
MSCI EAFE ($)	1.4%	8.9%	23.0%	2339.3
MSCI Emerging Mkts ($)	3.7%	-1.9%	13.3%	1266.1
US & Canadian Equities				
Dow Jones Industrials ($)	1.0%	15.8%	24.4%	35454.8
S&P 500 ($)	1.6%	20.1%	29.5%	4511.7
NASDAQ ($)	2.8%	17.4%	30.1%	15129.5
S&P/ TSX Composite (C$)	1.6%	18.5%	23.5%	20655.6
UK & European Equities				
FTSE All-Share (£)	0.9%	12.2%	22.7%	4121.0
MSCI Europe ex UK (€)	0.3%	18.3%	27.4%	1695.8
Asian Equities				
Topix (¥)	2.6%	6.9%	19.4%	1928.8
Hong Kong Hang Seng ($)	2.2%	-6.7%	0.5%	25407.9
MSCI Asia Pac. Ex-Japan ($)	3.5%	-2.3%	12.2%	646.9
Latin American Equities				
MSCI EMF Latin America ($)	3.2%	-0.4%	26.0%	2441.4
Mexican Bolsa (peso)	1.9%	18.9%	39.2%	52401.0
Brazilian Bovespa (real)	2.1%	1.3%	19.8%	120549.1
Commodities ($)				
West Texas Intermediate Spot	10.3%	41.7%	59.7%	68.7
Gold Spot Price	1.9%	-4.1%	-5.4%	1817.0
Global Bond Indices ($)				
Barclays Global Aggregate ($)	-0.1%	-2.6%	1.0%	544.3
JPMorgan Emerging Mkt Bond	0.2%	-0.1%	3.7%	932.8
10-Year Yield Change (basis points*)				
US Treasury	5	39	55	1.31%
UK Gilt	5	38	24	0.58%
German Bund	7	15	-2	-0.43%
Japan Govt Bond	2	1	-2	0.03%
Canada Govt Bond	6	52	54	1.20%
Currency Returns**				
US$ per euro	0.8%	-3.4%	-0.2%	1.180
Yen per US$	0.0%	6.4%	3.0%	109.82
US$ per £	1.0%	0.7%	4.3%	1.376
C$ per US$	-1.6%	-0.9%	-3.9%	1.261

Source: Bloomberg. Equity-index returns are price only, others are total return. *100 basis points = 1 percentage point. **Increases in U.S. dollars (USD) per euro or pound indicate a decline in the value of the USD; increases in yen or Canadian dollars per USD indicate an increase in the value of the USD.

Index returns are for illustrative purposes only and do not represent actual investment performance. Index performance returns do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged, and one cannot invest directly in an index. Past performance does not guarantee future results.

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